MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive rating to notes issued by Charles Street Conduit Asset Backed Securitisation 1 Limited

Global Credit Research - 28 Oct 2014

GBP 435.0 million of Debt Securities affected

London, 28 October 2014 -- Moody's Investors Service has assigned a definitive long-term credit rating to Variable Funding Notes issued by Charles Street Conduit Asset Backed Securitisation 1 Limited:

....GBP435.0M Variable Funding Notes due 2050, Assigned Aa2 (sf)

Moody's has not assigned a rating to the GBP122.7M Subordinated Notes.

This transaction is an asset backed conduit securitisation by Jerrold Holdings Ltd (not rated), with the portfolio of loans backed by properties in England, Scotland and Wales with many of the borrowers being credit impaired. The portfolio includes small second charge loans, BTL loans and short term bridging finance with a maturity of two years or less.

RATINGS RATIONALE

The rating of the notes is based on an analysis of the characteristics of the underlying mortgage pool, sector wide and originator specific performance data, protection provided by credit enhancement, the roles of external counterparties including back up servicer and back up cash manager and the structural integrity of the transaction.

Moody's determined the MILAN CE of 35.0% and the portfolio expected loss of 7.5% as input parameters for Moody's cash flow model, which is based on a probabilistic lognormal distribution.

Portfolio expected loss of 7.5%: this is higher than the UK Non Conforming RMBS sector average and was evaluated by assessing the originator's historical performance data, inclusion of second lien loans, commercial lending and bridging loans, and benchmarking with other UK RMBS transactions. It takes into account Moody's positive outlook on UK Non Conforming RMBS and the improved UK economic environment.

MILAN CE of 35.0%: this is higher than the UK Non Conforming RMBS average and follows Moody's assessment of the loan-by-loan information taking into account the historical performance available and the following key drivers: (i) the presence of second lien loans, commercial lending and bridging loans, (ii) the revolving nature of the deal and the portfolio limits on LTV, arrears and loan purpose and (iii) the current portfolio characteristics including CLTV of 52.1%, and 17.0% of borrowers with a prior CCJ, IVA or bankruptcy.

Operational Risk Analysis: A back up servicer (Vertex Mortgages Services Limited, not rated), and back up cash manager (Royal Bank of Scotland plc, Baa1/P-2) have all been appointed at closing. The back up cash manager is required to step in within two business days and perform the duties of the cash manager if the cash manager defaults in making payments due under cash manager agreement subject to a two day grace period. Vertex Mortgages Services Limited is the back up servicer and is required to service the loans immediately on termination of the servicer's performance guarantor's obligations under the servicing deed or within 60 days of Jerrold being in breach of financial covenants. Vertex has mapped functions performed currently by Jerrold to ensure that it would be able to continue performing those functions. To help ensure continuity of payments the deal contains estimation language whereby the cashflows will be estimated from the three most recent servicer reports should such a document not be available. The reserve fund, held in an account with Lloyds Bank Plc (A1/ P-1), covers 2.0 months of liquidity at close assuming Libor of 5.7% and as it can only be used for interest and fees it should be available as a source of liquidity in all but the most extreme loss scenarios. Additionally during the revolving period, principal to pay interest for the variable funding notes (VFN) is a further source of liquidity. The issuer account is held at National Westminster Bank plc, (Baa1/P-2), however there are no provisions for replacement as long as it is held with National Westminster Bank PLC. This results in the rating of the note being linked to the credit worthiness of National Westminster Bank PLC.

Transaction structure: The transaction benefits from an amortising reserve fund equivalent to 1.5% of the outstanding VFN balance with total credit enhancement, excluding excess spread, for the VFN being 23.9%.

Excess spread is around 15.2% at closing and following the end of the revolving period will be used to accelerate the repayment of the VFN.

Interest Rate Risk Analysis: As there are no swaps in the deal, Moody's has modeled the spread taking into account the requirements for the weighted average margin on the assets being greater than Libor plus 6% and the requirement for 95% of the assets to yield at least Libor plus 5%.

Moody's Parameter Sensitivities: At the time the rating was assigned, the model output indicated that the VFN would have only been rated one notch lower at Aa3 if the MILAN CE was increased to 42% from 35% and two notches lower at A1 if the expected loss was increased to 11.25% from 7.5% assuming all other factors were constant. Moody's Parameter Sensitivities provide a quantitative/model-indicated calculation of the number of rating notches that a Moody's structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged and is not intended to measure how the rating of the security might migrate over time, but rather how the initial rating of the security might have differed if key rating input parameters were varied. Parameter Sensitivities for the typical EMEA RMBS transaction are calculated by stressing key variable inputs in Moody's primary rating model.

The ratings addresses the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal with respect to the Notes by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

The principal methodology used in this rating was Moody's Approach to Rating RMBS Using the MILAN Framework published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the rating:

Upward pressure on the ratings could result from better-than-expected performance of the underlying assets.

Downward pressure on the ratings could result from significantly different loss assumptions compared with our expectations at close due to either a change in general economic and real estate market conditions from our central scenario forecast or idiosyncratic performance factors would lead to rating downgrades. Additionally a deterioration in credit worthiness of National Westminster Bank PLC as issuer account bank would cause a downgrade of the rating.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments in this transaction.

Further information on the representations and warranties and enforcement mechanisms available to investors are available on http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF370612.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

As the section on loss and cash flow analysis describes, Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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